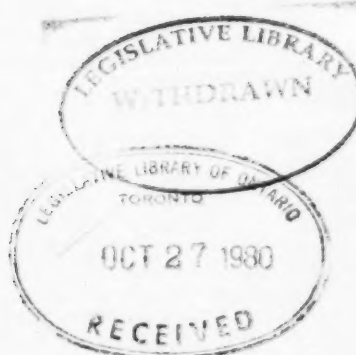


STUDY OF DEMAND FOR HOME EQUITY
DISSAVINGS PLANS IN ALBERTA

PREPARED FOR
ALBERTA HOUSING AND PUBLIC WORKS

BY

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CONSULTING



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The views expressed in this report, however, are those of FORMA Consulting and do not necessarily reflect those of others who contributed to the project or those of staff of Alberta Housing and Public Works.

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1. BACKGROUND

In the past year suggestions have been made by representatives of senior citizen organizations that the government consider the potential utility of home-equity dissavings plans. In February, the Alberta Home Mortgage Corporation Board requested that Alberta Housing and Public Works undertake a study into the idea.

As a first step, a background paper, "Home-Equity Dissavings Plans for the Elderly", was prepared by the Policy and Planning Division of the Department in April 1979. The paper summarized:

"the state of the art of the subject in Canada, the United States and Britain, the rationale for such schemes, types of plans currently in existence, institutional and legal constraints currently impacting on the adoption of such schemes, and some factors relating to the market potential of such plans in Alberta." (1)

The review led to a conclusion that a study should be conducted to determine the potential market for such plans and the type of annuity/reverse mortgage scheme that might be most popular or acceptable.

2. PURPOSE OF THE STUDY

The main purpose of this study was to determine the extent to which demand for dissavings plans exists in the Province. In addition to this principal objective, two other objectives were identified:

- To examine the preferences of seniors for different types of plans and the reasons for these preferences.
- To investigate the general attitudes of seniors to the various housing alternatives available to them including home-ownership, rental and condominium tenure.

The research design was also affected by two main parameters:

• Other Programs

The Province currently operates programs to help seniors stay in their own homes such as the Home Care Program, Senior Citizen Home Improvement Program, the Pioneer Repair Program and the Alberta Assured Income Plan. These initiatives indicate the importance that the Province attaches to enabling elderly home-owners to maintain their own homes as long as they desire and are able. A home equity dissavings plan would therefore not only be consistent with other provisions but also complement them.

● Private Lenders Operating the Plans

While the government directly delivers many programs for seniors, it was felt by government officials that dissavings plans would be most properly financed and handled by private lending institutions, and not by the government. This has important implications for the study, and for the design of the plans.

The plans would provide additional funds to seniors over and above existing assistance schemes. Seniors would not have to substitute their own equity for other assistance. By and large, senior citizens generally and those who own homes in Alberta in particular are among the most well-provided for in Canada under existing programs.

The decision that dissavings plans be offered through private lenders raises another issue. Regardless of the type of plan offered, the economic feasibility hinges on the market rate of interest. Between August and December 1979 when this study was undertaken, mortgage rates rose from 12 per cent to 15 per cent. Since people would ultimately have to repay funds they were borrowing against the equity in their homes at these rates, benefit levels would have to be quite high to yield a positive cash flow over a number of years. In other words, the effect of current high market mortgage rates would be to cause the home-owner to use up his or her equity more rapidly to generate a useful income stream or to diminish the amount of periodic payments over a longer term. This would

accelerate the day when the house had to be sold to repay the debt under a reverse mortgage plan. Recognizing these constraints, the plans to be tested were nevertheless designed at market rates without any government subsidy to the interest rate.

Given the benefits already available to elderly homeowners in the Province and their relatively adequate income levels, coupled with the crippling effects of current market interest rates on the levels of pay-outs, the potential formulae produced modest benefits. These points will be reconsidered in assessing the results of the survey.

3. METHODS

Any market study has three main ingredients: a product, potential consumers and a means of assessing consumer reaction to the product. In this study, these were:

- THE PRODUCT : PLAN DESIGNS AND DESCRIPTIONS of two basic types of plans (reverse mortgage and annuity).
- THE CONSUMERS : SAMPLE OF ELDERLY HOME-OWNERS in selected communities in Alberta
- SURVEY : MAIL-OUT AND INTERVIEWING of seniors to determine interest.

3.1 PLAN DESIGNS AND DESCRIPTIONS

Before detailed calculations of potential monthly benefits to elderly home-owners were prepared some basic decisions had to be made about the types of plans to be tested.

The Province wished to test two basic types:

- the straight reverse mortgage type
- the life annuity type

The split-equity type of plan tested in the City of Toronto Study was not considered acceptable in Alberta and therefore was not included in this study. (2)

Detailed actuarial calculations were prepared by DDE Financial Consulting Services (Toronto) for the two types of plans under a range of assumptions. Based on these, specific assumptions were selected in consultation with the management team for the study. The key assumptions used in the Plan Descriptions were:

- the maximum proportion of house value to be used was 75%

The maximum proportion that lenders would usually be prepared to lend in order to establish some security for their investment would be around 75% in Canada. Of course a home-owner could choose to use less than the maximum. In the materials which were distributed in the survey, examples were shown at 50% of value as well as 75%. (Appendix 1)

- property values were assumed at current market value with no allowance for property value appreciation in determining pay-outs

Property values have been appreciating quite rapidly in Alberta in recent years. However, future increases are always uncertain. In the plans developed the most conservative assumption was used, namely that no increase in value could be used within the term of a reverse mortgage. In this way the entire increase in property value would accrue to the owners during the plan and could be used for renegotiation of a further plan after expiry of the term. In calculating the value that would remain after a five year fixed term (Plan A), the property was assumed to have increased at a modest 8 per cent; for a ten year term property values were seen to increase at 5 per cent per annum. However, these rates do not affect the amount an owner would receive, only the residual value of his/her house at end of term.

- mortgage interest rates of 12 per cent

At the time when the plans were designed interest rates were at 12 per cent. Although interest rates rose during the fall, the Plan Descriptions were distributed without modification to the pay-outs at the higher rates.

From these assumptions, the actual Plan Descriptions were compiled for a range of house values, and in the case of Plan B, the life annuity, for selected ages as well. Because of the high interest rates, Plan B could produce a net positive cash flow only for those aged 75 years and over since in this type of plan interest is repaid annually.⁽¹⁾ Under Plan A, the reverse mortgage, the capital and interest are both accumulated to the end of the term as a total debt against the property.

The sample figures distributed in the survey were intended to allow seniors to determine their potential benefit based on their own house value and their choice of terms and plans. The plan descriptions also outlined the main features of the two types of plans, bringing out the main differences between them.

The Plan Description Package was developed and tested in the pre-test stage and simplified to the final version sent out in the survey. Our concerns about the ability of respondents to grasp the concepts and the details of the benefits to them were quickly allayed in the pre-test interviews. In some interviews, respondents were given the material to read before questions were asked. In other interviews, the plans were explained verbally and respondents were shown how to determine the benefits to them. In both cases it was found that people quickly understood the ideas and figured-out how much they could receive. Therefore, it was concluded that these types of descriptions were understandable to most seniors.

(1) Other life plans could be structured to yield positive cash flows to younger senior citizens.

This pre-test conclusion was confirmed to some extent in the feedback from the survey, both from comments received and from the interviews conducted. As additional verification, a sample of the non-respondents were called and asked if they had understood the materials or would like further explanation. Most seniors said that they had understood the material.

Reasonable confidence can be placed therefore, in the ability of seniors to understand the materials used and respond to questions about their interest. Senior citizens appear to be more sophisticated in their understanding of financial matters than researchers had previously thought.

3.2 THE SAMPLE

The sample of respondents was selected from two sources:

- the Municipal Affairs computer tapes of home-owners in the Province
- Alberta Housing files of recipients of the Pioneer Program grants to seniors for home repair.

The main sample of 3,000 home-owners over age 65 was selected from thirteen municipalities from the Municipal Affairs tape. The municipalities were selected on the basis of population size so as to include communities of various size ranges. The particular municipalities

included were selected on the basis of the proportion and numbers of senior citizen residents. Table 1 shows the sample distribution by municipality.

TABLE 1: Distribution of Main Sample

Municipality	Population Size	Number in sample
1. Edmonton	metro	1200
2. Calgary	metro	1050
3. Lethbridge }	20 - 50,000	185
4. Medicine Hat }		130
5. Red Deer }		120
6. Grande Prairie }	10 - 20,000	40
7. Camrose }		65
8. Wetaskiwin }	5 - 10,000	40
9. Lloydminster }		20
10. Drumheller }		35
11. Ponoka }	1 - 5,000	50
12. High River }		45
13. Bonnyville }		20
TOTAL		3000

Source: Alberta Municipal Affairs tape

In addition to the 3,000 main sample of elderly home-owners, a subsample of 500 seniors was selected from among those who had received provincial grants for home repairs in the Pioneer Program. This program is geared toward lower income senior citizens in the province, and it was felt desirable to increase the sampling of those with lower incomes to determine if they were more interested in dissavings plans than those with higher incomes. The 500 subsample was selected randomly within the same municipalities as the main sample. The two samples were cross-checked to eliminate duplication.

The sampling was greatly facilitated by the ready availability of these two files of elderly home-owners. The files provide an excellent resource for research in this field and their quality is attested to by a very low drop-out rate related to factors such as people moving or having died.

The overall sample size was largely pre-determined in the study taking into account likely response rates on a mail-out questionnaire. It was felt that even with a 10% response on the mail-out survey, reliable conclusions could be drawn especially when substantiated by 150 in-depth personal interviews. Thus the sampling ratios were pre-determined for the study.

3.3 MAIL-OUT SURVEY AND INTERVIEWING

The original design for the survey embraced two components:

- in-depth personal interviewing of about 150 elderly home-owners
- mail-out questionnaire to some 2,000 elderly home-owners

During the pre-test stage, a decision was made to opt for a two-stage process rather than conducting both aspects simultaneously. This decision was based on difficulties encountered in setting up pre-test interviews by telephone. Only about one in three people called for the pre-tests agreed to and had time to be interviewed. The task of setting up 150 personal interviews for the actual survey would have been a major undertaking in time and resources, and it was felt that this route was not cost-effective.

The two-stage process involved mailing out Plan Descriptions to the full 3,500 sample to ascertain interest. The second step in the proposed method was to select from replies for in-depth interviewing a controlled number who expressed interest in the plans as well as a number that were not interested.

The two-stage approach was also useful in allowing for further flexibility if the mail-out response rate was too low. In the pre-test we had excellent results in interviewing people through senior citizen centres in Edmonton. With the cooperation of staff at the centres we were able to reach seniors in a friendly environment where our credibility was also verifiable. The possibility of using this mechanism for interviewing more senior citizens later in the study was not precluded by the methods proposed.

The response rate from this mail-out was very small. The problem from a research point of view is how to interpret the low returns. It could be argued that even if a questionnaire had been enclosed very few people would have returned it when they did not return the reply card. On the other hand, some people may have been willing to answer a few questions after they had read the Plan Descriptions while the material was fresh in their minds. This would have provided more information about how people felt about these plans than was obtained from the survey.

Given the poor response from this method it is easy to recommend against its use elsewhere. While we were able to complete interviews with most of the people who sent the reply cards. further research to determine the possible reasons for the low response rate was not undertaken, and other methods of investigating the topic were not considered warranted given the low response.

The interview schedule is included in Appendix II.

4. FINDINGS

The results of the survey are presented in four sections:

- response rates
- characteristics of those interviewed
- responses to the plans
- general findings

There is also a summary of key points.

4.1 RESPONSE RATES

Table 2 summarizes the number of returns and interviews completed relative to the number of information packages distributed. A small number (164) of the original sample was not usable owing to incomplete information from the Municipal Affairs tape. In total, then, 3,336 packages were distributed; 39.3 per cent of the sample was in Edmonton and 35.2 per cent in Calgary. Given the low response, the non-metropolitan municipalities are grouped by population size categories.

TABLE 2: Returns and Interviews Relative to Sample Distribution

Municipalities	Sample Size		Not Delivered	Cards Returned		Requesting Interview		Interviews Completed
	Number	%		Number	% in mun.	Number	% in mun.	
Edmonton	1310	39.3	2	22	1.7	16	1.2	14
Calgary	1176	35.2	11	24	2.0	12	1.0	6
Population Size Categories:								
20,000-50,000	497	14.9	9	10	2.0	2	0.4	-
10,000-20,000	121	3.6	1	4	3.3	2	1.6	-
5,000-10,000	109	3.3	2	2	1.8	1	0.9	1
1,000- 5,000	123	3.7	1	2	1.6	-	-	-
unknown	-	-	-	7	-	-	-	-
Total	3336	100.0	26 (0.8)	71	2.1	33	1.0	21 (0.6)

Only 2.1 per cent (71 people) returned the reply card and only 1 per cent said they were willing to be interviewed. This low response rate is fairly consistent across municipality size ranging from 1.6 to 3.3 per cent. This suggests that reaction to the package of materials was roughly comparable across the province. Only 26 of the 3336 packages were returned as undeliverable, which indicates the high quality of the sampling frames.

Of the 71 respondents, 38 indicated that they did not wish to participate in an interview. Most just indicated that they did not want to be interviewed (24). Two expressed concern about the interest rates that would be payable; one was interested but was moving to another province; three expressed general satisfaction with their situation - why would older people want to risk their house or need extra money although pension income was "skimpy"? Comments from four people clearly indicated that they thought we were trying to sell them the plans and that they were a rip-off. Misinterpretation of the purpose seems to have been a factor in the low response rate.

Thirty-three people replied that they were willing to be interviewed. Interviews were completed with 21 of these people. Among the reasons for not interviewing the other twelve were:

- not interested when called (5)
- unable to reach (2)
- away, moved or inaccessible (3)
- ill or died (2)

In total, the interviews were completed with 0.6 per cent of the original sample.

4.2 CHARACTERISTICS OF THOSE INTERVIEWED

As only 21 interviews were completed in the main survey, it was decided to include the results of the pre-test interviews (16 in Edmonton) in this analysis, bringing the total to 37 respondents. Table 3 summarizes the characteristics of age, marital status, income and mortgage status of the two groups. House values showed relatively little variation with most valued between \$70,000 and \$90,000; therefore this characteristic was not analyzed farther.

TABLE 3: Characteristics of Interview Participants

Characteristics	Main Survey	Pre-Test
Total number of Interviews	21	16
<u>Age</u> - average (years)	69.6	72.9
- no. (%) 70 & over	12 (57%)	11 (68.8%)
<u>Marital status</u>		
- no. (%) married couples	15 (71.4%)	7 (43.8%)
<u>Income</u> - Less than \$9,000	4 (19%)	8 (50%)
\$9,000 to 10,500	5 (24%)	1 (6%)
10,500 to 12,000	8 (38%)	4 (25%)
over 12,000	4 (19%)	3 (19%)
<u>Mortgage status</u>		
- no. (%) with no mortgage	12 (57%)	12 (75%)

The pre-test group was slightly older, had fewer married couples and had more respondents in the lowest income category than the main survey group.

4.3 RESPONSES TO THE PLANS

In the main survey, responses to the plans were divided into three categories:

- Yes: the person definitely would be interested if the plans were available
- Maybe: the person would probably consider the plans if they were offered, depending on personal circumstances
- No: the person was not interested for him or herself for the foreseeable future, if ever.

Pre-test responses were classified into the yes or no categories.

Extent of Interest

More than half the respondents indicated definite or possible interest in the plans.

- 15 people (40.5 per cent of those interviewed) were definitely interested
- 6 people (16.2 per cent) might be interested
- 16 people (43.2 per cent) were not interested

Among those not interested for themselves, most thought that the idea of the plans was good for "those who need them".

While the numbers of people interviewed were far too small to allow for generalizations, the results do indicate some degree of interest in the idea of these types of plans. However, 21 people out of a total of over 3,500 implies somewhere around half of one per cent of elderly home-owners having any interest.

Characteristics of those Interested

Interest in the plans seems to be related to age. Those who were definitely interested in the plans were younger than those who were not. The older people were, the more they expressed the opinion that they could get by with what they had. (Table 4)

All of those in the main survey who were definitely interested were married couples. Possibly couples are more apt to want extra income to enjoy things together such as travel. But, this preponderance of couples expressing interest was not obtained in the pre-test group.

TABLE 4: Respondent Characteristics by Response to the Plans

Characteristics	Main Survey			Pre-Test	
	Yes	Maybe	No	Yes	No
• Number	9	6	6	6	10
• Average age (years)	68.9	67	73.5	69.6	74.9
• Number married	9	4	2	2	5
• income					
less than \$9,000	1	2	1	1	7
9,000-10,500	2	2	1	-	1
10,500-12,000	5	1	2	4	-
over 12,000	1	1	2	1	2
• Number with no mortgage	4	3	5	4	8

No clear pattern of interest in the plans according to income level exists. Five of the nine in the main survey definitely interested had middle incomes (\$10,500 to \$12,000). Seven of the 10 in the pre-test sample not interested were in the lowest income group.

Preferences for Plan Types

No-one was seriously interested in Plan B because of low pay-outs, part of which would be taxable. About a third would prefer Plan B with its life-time security, if the pay-outs were higher. Two-thirds selected some variation of Plan A. The five and ten-year terms were equally popular. Fewer people selected the maximum amounts (based on 75 per cent of house value) than choose a lesser amount (based on 50 per cent of value).

The reasons for people's choices seem to relate more to personal circumstances such as health, age of spouse, attitudes to the future and so on, than to any age or income characteristics. The five-year term in Plan A was attractive to younger seniors because it gave them flexibility, and to older seniors because they expect to have to sell their houses about that time anyway. People who choose the maximum benefit under Plan A (the 5-year term on 75 per cent of house value) were mainly relatively younger couples with middle-incomes who wanted the money to travel. Respondents were interested to know their net position at the end of term, but did not seem to base their choice on that factor. Those who preferred using only 50 per cent of the house value seemed to be interested mainly in maximizing future options. In only one case did people make their choice according to the amount of income they felt they wanted.

Reactions to the annuity, Plan B, were cautious. Those who might have been interested in the security aspects would find a longer term reverse mortgage (say 10 or even 15 years) an acceptable alternative. Some people argued that life insurance companies do not give good value for the money invested and therefore they would not choose an annuity.

The main reason people gave for their dis-interest in any plan was that they did not need the money. This reason was given by people at all income levels. Other reasons were high interest rates, mistrust of financial institutions and that it would be too much bother. Inheritance did not figure largely in the reasons expressed for lack of interest.

4.4 GENERAL FINDINGS

As well as testing reactions to the plans, the questionnaire was designed to provide information on the following:

- the effect of government programs on encouraging senior citizens to remain in their homes
- the interest among seniors in condominiums
- attitudes towards inheritance
- attitudes towards government involvement in equity dissavings plans.

Government Programs

Most of the people interviewed were familiar with government grants for home repairs (Pioneer, Senior Citizen's Home Improvement Program (SCHIP), the Canadian Home Insulation Program (CHIP) and the Residential Rehabilitation Assistance Program (RRAP)). The majority (about 60 per cent) had applied for or received one or more of these grants.

Since most people surveyed expressed a desire to stay in their homes "as long as possible" or forever, easy access to home care services would be valuable. When the question of moving arises, lower income seniors seem to regard Alberta senior citizen rental housing as the main alternative to owning. Those with higher incomes gave private rental as their preference. Most, however, did not find high-rise attractive and would prefer a small unit of their own at grade.

Condominiums

Thirty-two of the 37 respondents indicated that they would not be interested in buying a condominium. Even if some form of government subsidy were available about two-thirds said that they would not be interested. Those who might be interested tended to be younger and have more valuable homes.

Inheritance

Attitudes to inheritance seem to be moderating. About half of the seniors interviewed said that it was not important to them to leave an inheritance. These seniors were somewhat younger (average age of 66.7 years) than

those who said that inheritance was very important (73 years). Only four people thought that inheritance was very important, and two of them were still interested in the plans to use part of their house equity themselves. These findings are consistent with other research results suggesting diminishing importance of inheritance to senior citizens.

Government Involvement

Fifteen out of the 21 respondents in the main sample (71.4 per cent) indicated that they thought the government should be involved in some way in the operation of the plans. One household did not care one way or the other and five did not answer the question because they were not interested at all in the plans.

The nature and level of involvement was not made explicit. Several were concerned that the government should act as a guarantor to prevent foreclosures, for example. Those interested in Plan B usually wanted governments to be involved in ensuring better pay-outs through interest write-downs and possibly in changing the income tax provisions on annuities. On the whole, people thought that government's role should be largely to set certain guidelines or regulations to protect the consumers.

4.5 SUMMARY

With such limited data it is impossible either to generalize results to Alberta's senior citizen population or to assert that there is any specific market for these plans. However, some points are worth emphasizing.

- Those interviewed, showed a clear grasp of the basic concept and most felt that it was acceptable in principle. Several had already heard of the plans and a few were very knowledgeable about them.
- Those in the middle income brackets tend to be most interested.
- Most of those in the lowest income bracket felt that they did not need extra money.
- Interest in the plans was lower among single elderly than might be expected if need was the key motivating force.
- Most interest was in Plan A: 5 years/75 per cent from younger couples with middle incomes. Specific preferences seemed to depend on personal situations more than income or other characteristics.

The low level of interest suggests that major initiatives to promote these plans are probably not warranted at this time. However, the situation should be monitored, as most respondents felt that the government should be involved if plans were introduced.

Considerable interest and appreciation was expressed for government programs such as Pioneer and senior citizen housing. It was generally thought that ready access to various home services would help encourage people to remain in their homes. Very few people were interested in condominiums as an alternative even if a government subsidy were available.

5. ISSUES AND CONCLUSIONS

Research projects are reknowned for raising as many questions as they answer and this study was not exception. Given the extremely small number of interviews it would be misleading to generalize from the results. In concluding, then, we would like to draw attention to some of the key issues which seem to have been highlighted in the study.

First and foremost is the question of how the market for such radically new ideas can be satisfactorily tested. Given that equity dissavings plans do not exist and have not existed in Canada other than Metro Trust's plan, we are dealing with an untried product. New products are always suspect and this one touches on the centre of many people's greatest emotional and financial security, their homes. Among the elderly in particular the home has even greater symbolic significance in so far as their ability to stay in their homes is synonomous with independence in the face of approaching dependency.

In marketing terms, consumer resistance to a new product which in any way appears to threaten established values or security can only be expected to be extremely high. Awareness of the delicacy of any survey on the question of these home dissavings plans led to our concerns for providing reassurance and credibility to the study. Nevertheless, before a new product can be tested it has to be explained and to some extent "sold" to the potential consumers. The low response to the mail-out inviting people to be interviewed indicates an inability with the methods used to overcome initial consumer resistance to a new idea. Possibly group interviews in a familiar setting such as a senior citizen centre could help overcome some of these difficulties.

In addition to psychological barriers to the concepts, people's reactions to the proposed plans seem to have been heavily weighted according to their perceptions of whether or not they required additional income. Most felt that they could manage and therefore would have no need of the plans. As was suggested in design considerations, provisions for seniors in Alberta are quite good including income supplements, home repair grants and property tax-abatement. Besides, most seniors have already planned their own retirement income to some extent. Barring unexpected circumstances, they would be living within their resources.

Within the context of the individual's financial plan and supplementary government programs, most seniors are not expecting to find ways to further increase their incomes. Financially then, the idea of freeing up savings in a house has never entered into their planning or thinking. To be able to relate to the potential for using their home equity, it would be necessary for them to consider the plans as part of their retirement plan.

Psychological resistance to a new idea which may appear to threaten their home and security plus the fact that financial needs are already met, made a rigorous market test of the plans very difficult to achieve. Possibly a more appropriate target group would be the pre-retirement, fifty to sixty year-olds, who may be in the process of planning for their retirement. Unless equity dissavings forms part of a retirement income plan, it would be viewed as potential discretionary income or emergency funds.

Apart from the issue of how to test the market, a second issue arising is what constitutes a reasonable market. Is one half of one percent of elderly home-owners an attractive market from the lenders' viewpoint? The present study did not investigate lenders attitudes or profitability margins in these plans. Presumably some minimal level of demand is required to defray the costs of developing and marketing them. On the other hand, these dissavings plans could be offered on a small scale to lenders' existing clients. Some of the US schemes developed as a service to established clients who found themselves faced with selling their homes in times of financial hardship. There would presumably be little to prevent Alberta lenders from offering a scheme on an individual basis. Given current interest rates and the economic climate in the Province, risk to the lender would be minimal and returns quite considerable. Indeed until the plans have been made available and used even on a small scale, it is difficult to see how any large scale demand could develop. The concept of tailor-made dissavings packages would seem more attractive than a massive or generalized scheme given the nature of the apparent demand for these arrangements.

The third and final issue deserving attention is the problem of designing a life-annuity plan that provides positive cash flow to the plan-holder. Many people are attracted by the security of this type of plan but two problems remain: the low pay-out rate because of high interest rates, and the taxability of part of the benefits.

Resolution of these difficulties would probably produce a plan which would be more appealing to elderly homeowners than the ones tested in this study. In other words, to an extent, the product as structured was not attractive enough to the consumers to get them interested. Given that many people felt that the government should be involved in some way in these plans, there seems to be at least some role to be played here if a decision were made to pursue the concept.

These three issues, namely, the potential clientele for marketing plans, the scale of the market and the attractiveness of the plans themselves combine to make determination of the extent of the market difficult to determine. Hopefully this study has shed some light on the barriers to interest in the plans. Significantly, inheritance, which was suggested as a possible barrier to interest, did not seem to figure largely in the negative reactions expressed. While Alberta is following the steps of interest expressed by Metro Trust,⁽²⁾ the City of Toronto and the Government of Nova Scotia which have all been looking into the plans, the present study represents the first attempt of which we are aware to test the market for them. However, no one is aggressively pursuing these plans at this time.

(2) Metro Trust offered the first plan available in Canada on March 15, 1979. However, the plan has recently been curtailed.

Further research should be undertaken to develop a workable formula for equity dissavings plans since the concept has some appeal and potential usefulness at many levels. In particular, the following suggestions are offered for areas of investigation:

- lenders attitudes to the idea of developing tailor-made or small scale plans for individual clients should be examined. In particular the question of the necessary scale of any such plans warrants attention.
- the potential interest in the plans among the pre-retirement group would be an interesting avenue to explore. These people would be in a better position to assess the role such plans could play in their plan for retirement in the near future.

However, bearing in mind that this study surveyed 3,500 elderly homeowners across the Province, and that only one half of one per cent showed any interest in these plans, it would be inappropriate for us to recommend that the Government of Alberta take any further steps to promote these plans at this time. Specifically, there appears to be little reason for the government to actively encourage private lenders to develop and market any large-scale equity dissavings plans in Alberta.

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- (2) See City of Toronto Reversionary Interest Program,
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APPENDICES

1. Letter and Plan Descriptions
2. Interview Schedule

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Urban and Social Policy
Research

October 19, 1979

Dear Homeowner:

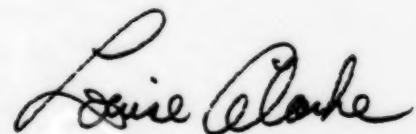
Alberta Housing and Public Works is currently examining a new financial idea called The Home Income Plan. You may have also heard of this referred to as a reverse mortgage. This type of plan allows homeowners to convert part of the equity in their house into cash to supplement their income. Such plans already exist in Britain and the United States.

We have been commissioned by Alberta Housing and Public Works to survey the interest and possible market for such plans in Alberta. If sufficient interest is found, private lenders may be encouraged to make such schemes available to Alberta senior citizens. Attached you will find a few pages describing two basic plans. There are also some tables illustrating how much you might receive per month.

For the purposes of this Study, we would like to meet with people and discuss the idea with them. If you are interested and would like to participate, could you please complete the enclosed card and return it in the stamped envelope provided.

We would appreciate it if you could send the card back to us by November 7th if you are interested in discussing the idea in more detail. Any information you will provide in the interview will be kept in strictest confidence by Alberta Housing and Public Works. We would very much appreciate your participation.

Yours truly,



Patricia Streich
Louise Clarke

HOME INCOME PLANS - A BRIEF EXPLANATION

HOME INCOME PLAN describes a financial planning technique which provides added income to homeowners based on the equity (i.e. paid up value) in their homes. The equity which you have in your house can be viewed as savings and Home Income Plans enable you to spend those savings without selling your house. Thus there are three key advantages to Home Income Plans:

- you can supplement your income based on the investment you have in your home,
- you stay in your home and retain title to it,
- you retain the potential for gains due to appreciating property values.

The money advanced to you under these plans must be paid back with interest to the financial institution lending you the money. While this will be an important disadvantage to some, we would like you to consider both advantages and disadvantages before forming an opinion on the value of these plans to you. Please read the attached pages to see how you personally could benefit from the two types of Home Income Plans described below. The key distinguishing features are:

PLAN A - FIXED TERM

- * You receive a regular income for a set term.
- * Accumulated principle and interest are payable at the end of the term.

PLAN B - LIFE ANNUITY

- * You receive a regular income for life.
- * Interest is deducted from the total benefit which you would receive each year. Principle is payable out of your estate.

COMPARISON OF TWO TYPES OF HOME INCOME PLANS

CHARACTERISTICS	PLAN A - FIXED TERM	PLAN B - LIFE ANNUITY
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1. Basic Concept	* A financial institution loans money to you on a regular basis for a set term.	* A financial institution sells you a life annuity plan; you receive money on a regular basis as long as you live.
2. Total Plan Amount	* Maximum amount of the loan is 75% of the value of your house at the beginning of the plan. A smaller proportion may, of course, be used.	* Maximum amount invested in the annuity is 75% of value of your house at the beginning of the plan. Smaller proportion may be used.
3. Annual Benefit	* Amount you would receive depends on: 1) length of term - the shorter the term the greater the monthly benefit. 2) the amount of the plan - the more value involved the greater the benefit. To figure out how much extra income you might be able to receive from Plan A, refer to Table 1; select your house value from across the top. The column below tells you the monthly benefit you could receive based on 1) terms of 5, 10 or 15 years; 2) maximum 75% in plan or only 50% of house value in plan.	* Amount you would receive depends on: 1) your age, 2) how long you live. To figure out how much extra income you might be able to receive from Plan B, refer to Table 2; select your house value from across the top. The column below tells you the monthly benefit you could receive at either age 75 or 80. These monthly benefits would be guaranteed to your estate for 5 years.
4. Who Benefits?	* No age limits. * Can generate large amounts of income for a short period, say before you receive full pension benefits or smaller amounts for long period if you want longer term security.	* Benefits <u>only</u> those 75 years and older. Offers good security to those who want to remain in their homes "forever".

COMPARISON OF TWO TYPES OF HOME INCOME PLANS - (Cont'd)

CHARACTERISTICS	PLAN A - TERM	PLAN B - LIFE ANNUITY
5. Interest	* Interest rate same as for mortgages. * Interest calculated each year on only the amount of principle paid to you to date.	* Interest rate same as for mortgages. * Interest on whole plan amount deducted from total annual benefit each year until death.
6. Repayment	There are a number of options: * At the end of term, you could take out another plan based on 75% of the appreciation in value of your home since the beginning of the plan. The higher the appreciation, the longer the term and the lower the amount of equity in the original plan, the greater the equity remaining for refinancing. * You could sell your house at the end of the term. The residual equity (that part of house value not loaned) can be invested in whatever way you see fit. * At the end of the term you could convert the loan to a conventional first mortgage (in which monthly payments towards both principle and interest are required) if you will have another source of income to make such payments at that time. * You can sell your house at any time during the term and pay back only the principle and interest outstanding.	* The principle (original amount of equity in the plan) is payable upon death of the planholder (or spouse in the case of joint plan). The executors and heirs must decide how to repay.

TABLE 1: PLAN A - FIXED TERM
MONTHLY AMOUNTS RECEIVED BY HOMEOWNER

House Value at Beginning of Plan	\$60,000	\$70,000	\$80,000	\$90,000	\$100,000	\$110,000	\$120,000
Maximum Loan Amount (75% of House Value)	\$45,000	\$52,000	\$60,000	\$67,500	\$75,000	\$82,500	\$90,000
5 Year Term	527	615	703	791	878	966	1,054
10 Year Term	191	223	254	286	318	350	382
15 Year Term	90	105	120	135	150	165	180
Lesser Loan Amount (50% of House Value)	\$30,000	\$35,000	\$40,000	\$45,000	\$50,000	\$55,000	\$60,000
5 Year Term	351	410	469	527	586	703	703
10 Year Term	128	148	170	191	212	254	254
15 Year Term	60	70	80	90	110	120	120

e.g. If your house is worth \$80,000 and you wanted to loan the maximum amount, \$60,000, your monthly income would be:

\$703 if you chose a five year plan

\$254 if you chose a ten year plan

\$120 if you chose a fifteen year plan.

TABLE 2: PLAN B - LIFE ANNUITY
MONTHLY AMOUNTS RECEIVED BY HOMEOWNER FOR LIFE

(Minimum Period of Payments to Homeowner and/or Estate = 5 Years)

House Value at Beginning of Plan	\$60,000	\$70,000	\$80,000	\$90,000	\$100,000	\$110,000	\$120,000
Maximum Annuity Amount (75% of House Value)	\$45,000	\$52,000	\$60,000	\$67,000	\$75,000	\$82,500	\$90,000
AGE 75 YEARS	114	133	152	171	190	209	228
AGE 80 YEARS	206	240	275	309	343	377	412

NOTE: Slightly under half of the net benefit is taxable.

If you do not pay income tax, Plan B would not be affected by tax. If you do pay income tax, the higher the tax bracket you are in, the lower the actual benefit to the homeowner.

ALBERTA HOUSING AND PUBLIC WORKS

HOME INCOME PLAN SURVEY

CONFIDENTIAL

RESPONDENT NO.

First, we would like to ask you some questions about your general housing situation.

Office use
only

1. What municipality do you live in?

9

2. How long have you lived in this house? . fewer than 5 years _____
 . 5 to 10 years _____
 . 10 to 20 years _____
 . over 20 years _____

3. a) Do you live alone? . Yes, I live alone _____
 . No, I do not _____

10

- b) If no, who do you live with? . spouse _____
 . children _____
 . other relatives _____
 . other _____

11, 12

- c) How many people live here altogether?

13

4. a) How old are you?

14, 15

- b) If your spouse lives with you, how old is she/he?

16, 17

5. Do you have any apartments or rooms for rent in this house? . yes I do _____
 . no I do not _____

18

6. Do you own this house free and clear, that is,
without a mortgage? . yes I do _____
. no I do not

19

7. What is your best guess as to what your house would sell for if it were put on the market right now? \$

20, 21, 22

23

8. a) Are you fully retired? . yes I am _____
 . no I am not _____

24

- b) Is your spouse (if living with you) fully retired: . yes _____
 . no _____

25

9.	Would you please indicate what your <u>total</u> annual income is roughly. (Include pensions, investment income, etc. for you and your spouse, if living with you)	_____	26
	_____ . less than \$9,000 (no income tax payable)	_____	
	_____ . \$9,000 to 10,500	_____	
	_____ . 10,500 to 12,000	_____	
	_____ . over 12,000	_____	
10.	Do you think that your income will be sufficient for your needs in 5 to 10 years?	_____	27
	_____ . yes, I think it will	_____	
	_____ . no, I don't think it will	_____	
	_____ . I am somewhat concerned	_____	
11.	Have you received or applied for any grants for making improvements to your house?		
	. If yes, check the appropriate one(s)		28, 29
	SCHIP _____ RRAP _____		
	Pioneer _____ CHIP (insulation) _____		30
	. No, I have not _____		
12.	a) Does the availability of these grants encourage you to stay in your house?		31
	. Yes, they help meet necessary costs I could not afford	_____	
	. No, I would stay in my home anyway	_____	
	b) Would the availability of homemaker, home nursing and maintenance services make any difference in your decision to stay or sell?		32
	_____ . yes they would	_____	
	_____ . no they wouldn't	_____	
	c) If yes, would you have difficulty paying for these services?		33
	. Yes I would find them too expensive	_____	
	. No, I could afford them	_____	
13.	Have you made any specific plans for the future as to		34
	. when you might sell your house? . yes _____ . no _____		35
	. Where you will move to? . yes _____ . no _____		36
	. No, I intend to stay in my house as long as possible	_____	
14.	How important is it to you to leave an inheritance?		37
	_____ . very important	_____	
	_____ . somewhat important	_____	
	_____ . not important	_____	

15. If you were going to move which of the following alternatives would you prefer the most?

- . private rental apartment _____
- . Alberta Senior Citizen apartment _____
- . senior citizen lodge where meals are provided _____
- . a nursing home _____
- . living with relatives _____
- . other (specify) _____

38

16. a) Would you consider buying a condominium (an apartment or town house unit which you own but where maintenance of common areas is done by a management firm)? . yes _____ . no _____

39

b) Would you consider it if a government subsidy was available to help with the purchase price? . yes _____ . no _____

40

Now, we want your opinions on the Home Income Plans presented in the attached sheets.

If you would like to receive more detailed information on what these plans would mean for you, please check here _____

41

17. If Plan A - Term were offered sometime in the future, do you think you would be . very interested in it _____

42

. somewhat interested _____

. not interested _____

18. If Plan B - Lifetime were offered sometime in the future, do you think you would be . very interested in it _____

43

. somewhat interested _____

. not interested _____

If you are not interested in either please remember to fill in questions 23 and 24.

- | | |
|--|---|
| <p>19. Under Plan A which terms would you be most interested in?
Check one in each category.</p> <p>a) Number of Years: 5 years _____ 10 years _____ 15 years _____</p> <p>b) Amount of Equity Used: 75% _____ 50% _____</p> <p>c) Please explain briefly why you would make these choices.

_____</p> | <p>44
<hr/>45
<hr/>46
<hr/>47</p> |
| <p>20. Which Plan do you think you would prefer? . Plan A - Term _____
. Plan B - Lifetime _____</p> | |
| <p>21. If Plan B offered higher monthly benefits would you</p> <p>a) consider it? . yes _____ . no _____</p> <p>b) prefer it? . yes _____ . no _____</p> | <p>48
<hr/>49
<hr/></p> |
| <p>22. Please explain why you would prefer Plan A or Plan B.

_____</p> | <p>50
<hr/></p> |
| <p>23. If the Government were involved at least to guarantee the plans, would you . prefer it _____
. not be interested _____
. not care _____</p> | <p>51
<hr/></p> |
| <p>24. If you are <u>not interested</u> in either Plan, please indicate why</p> <p>. want to leave my house to my heirs _____</p> <p>. want to sell the house anyway _____</p> <p>. do not want to be bothered _____</p> <p>. do not need the money _____</p> <p>. find the Plans too complicated _____</p> <p>. do not trust financial institutions or insurance companies _____</p> <p>. other (specify) _____</p> | <p>52 53
<hr/></p> |
| <p>25. What is the single most important reason that you are not interested?</p> | <p>54
<hr/></p> |